

BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

RECEIVED

JUL 21 1994

In the Matter of

Petition for Rulemaking
of the Ad Hoc
Telecommunications
Users Committee

)
)
)
)
)
)
)

RM 8480

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

**REPLY COMMENTS OF
SOUTHWESTERN BELL TELEPHONE COMPANY**

Southwestern Bell Telephone Company (SWBT) hereby files its Reply Comments regarding Comments filed by several parties on Ad Hoc Telecommunications Users Committee's (Ad Hoc) April 15, 1994 Petition for Rulemaking (Petition).

I. THE COMMISSION SHOULD REJECT COMMENTS REQUESTING THAT THE COMMISSION DELAY COMPREHENSIVE EXAMINATION OF ACCESS REFORM AND UNIVERSAL SERVICE ISSUES.

SWBT strongly disagrees with ICA's assertion that a comprehensive review is too burdensome to undertake.¹ Virtually all parties agree that the current access charge plan and the associated methods of supporting universal service are no longer viable in today's competitive environment. Anything less than a comprehensive examination of these issues simply puts off the inevitable. Some parties may have limited resources to participate in a comprehensive review, but a significant number have already addressed the major issues and additional parties can be expected to join the process once formal proceedings are initiated. There is no need to fear that the issues will not be addressed by a

¹ ICA, pp. 1-2.

sufficient number of commentators, which will provide a significant amount of information for the Commission to consider.

SWBT supports NARUC's recommendation that additional issues should be included by the Commission as a part of a comprehensive review of universal service. These issues include:

- (1) Whether universal service should promote universal affordability of some services and universal availability of other services;
- (2) What measures of universality (e.g., percent of subscribers) should be used to determine whether universal services policies have been met;
- (3) How privacy issues may affect universal service policies;
- (4) How universal service policies should balance costs against economic and social benefits of services; and
- (5) How the various policy makers can best coordinate their efforts in developing and implementing universal service policies, to ensure nationwide implementation while minimizing overlap or duplication of subsidies.²

SWBT also suggests that this list represents only a subset of the multitude of issues that would be involved in any truly comprehensive review of universal service.

SWBT strongly agrees with USTA concerning the need for the Commission to take action on USTA's Petition to reform access charge rules. As USTA stated, its access charge rule proposals will result in economically efficient pricing and correct market signals while maintaining universal service support and eliminating unnecessary regulatory burdens.³

² NARUC, pp. 5-6.

³ USTA, pp. 1-2.

II. THE COMMISSION SHOULD ALLOW FOR INCREASES IN THE SUBSCRIBER LINE CHARGE TO RECOVER THE INTERSTATE PORTION OF THE END USER'S COST.

SWBT agrees with the D.C. PSC that subsidies for low-income households alone may not be sufficient to protect universal service.⁴ In high-cost areas, competition may be slow to develop and the resulting prices that are necessary to provide service to such areas may substantially hinder the promotion of universal service therein. For this reason, support to the carrier of last resort in the high-cost areas may be essential to keep prices reasonable for all subscribers in such areas.

The reasoning used by the D.C. PSC to support this position, is, however, invalid. The D.C. PSC is concerned about the "unlimited cost increases allocated to local service" which will occur.⁵ No one has proposed, nor will there be any chance of "unlimited" cost increases. Increases to the Subscriber Line Charge (SLC), for example, to recover the interstate portion of the end user's cost would not be unreasonable, nor would they be "unlimited." In fact, the Commission itself originally planned in 1984 to implement an End User Common Line (EUCL) charge that would have fully recovered the interstate portion of end user costs.⁶

Likewise, the D.C. PSC's assertion that "universal service will not remain affordable if overall telephone rates are not kept reasonable because of increases in the SLC or in the costs

⁴ D.C. PSC, p. 4.

⁵ Id., p. 4.

⁶ MTS and WATS Market Structure: Decision and Order, CC Docket Nos. 78-72 and 80-286, released Dec. 28, 1984.

allocated to state jurisdictions"⁷ inaccurately predicts the future. If the SLC is increased, access charges to IXCs will be decreased, thus allowing for lower long-distance prices. These actions will result in an offsetting effect on the end user's telephone bill.

Additionally, even assuming the absence of a long-distance price offset, the assertion that a price increase will result in an unaffordable price is unsubstantiated. To address the concern that certain individuals cannot afford telephone service, SWBT agrees with the D.C. PSC that changes could be made to Lifeline-type programs to improve subscribership levels among low-income households.⁸ Lifeline programs could be re-examined to determine whether qualification procedures could be relaxed to promote increased subscribership levels. SWBT believes that an appropriate amount of price rebalancing combined with properly targeted Lifeline-type programs will go a long way toward providing the appropriate framework for a competitive marketplace while retaining safeguards for those individuals in need of assistance.

SWBT also strongly disagrees with ICA that additional nontraffic-sensitive (NTS) costs should not be assigned to end users and that increases to the SLC are premature.⁹ Continuing pricing policies, such as charging IXCs a usage-sensitive Carrier Common Line (CCL) charge for nontraffic-sensitive end user costs, is contrary to economic efficiency and will not work in a

⁷ D.C. PSC, p. 4.

⁸ Id., p. 3.

⁹ ICA, pp. 2, 5.

competitive environment. The time has come to rectify these types of policies. The elimination of CCL charges through an increase in the SLC is one of the first steps the Commission should take to more appropriately align access pricing levels.

ICA's concern about the lack of incentives to be more efficient should also be rejected. LECs face competition for vast portions of their business. LECs have repeatedly requested a "pure price cap" system that provides financial incentives from increased efficiency needed to respond to competition. Otherwise they will face the loss of significant portions of their business without any corresponding public interest benefit.

III. SUBSIDY PAYMENTS FOR LOW-INCOME HOUSEHOLDS ALONE MIGHT NOT BE SUFFICIENT TO PRESERVE THE GOAL OF UNIVERSAL SERVICE.

Proposals to target universal service subsidy payments toward only those individual end users who can demonstrate a need for such financial support generally satisfy most economic efficiency principles. However, as explained above, if social policy objectives include maximizing the number of subscribers to the telephone network, such narrowly focused subsidy programs might not be as effective as a broader approach for high cost areas. The costs associated with deploying and maintaining telecommunications network facilities in relatively small, remote communities are greater than the costs of providing telephone service to residents of densely populated urban areas. If LEC local service rates are expected to ultimately move closer to the costs of providing basic telephone services, rate increases for such remote (typically rural) communities might be anticipated. In these "high cost"

areas, support to the local telephone service provider may be required as a supplement to an expanded Lifeline program.

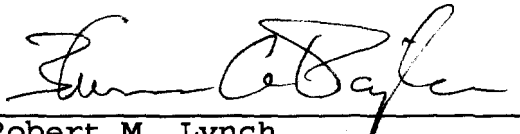
IV. CONCLUSION

The Commission should not delay a comprehensive review of universal service and access reform issues. Rather, the Commission should begin the process of rate rebalancing by increasing the SLC to recover all interstate common line costs. Additionally, the Commission should remain mindful of the continued support which may be required to continue universal service goals in high-cost areas.

Respectfully submitted,

SOUTHWESTERN BELL TELEPHONE COMPANY

By



Robert M. Lynch
Richard C. Hartgrove
Michael J. Zpevak
Thomas A. Pajda

Attorneys for
Southwestern Bell Telephone Company

One Bell Center, Suite 3520
St. Louis, Missouri 63101
(314) 235-2507

July 22, 1994

CERTIFICATE OF SERVICE

I, Katie M. Turner, hereby certify that the foregoing "Reply Comments of Southwestern Bell Telephone Company" in RM-8480 has been filed this 22cd day of July, 1994.

A handwritten signature in cursive script, reading "Katie M. Turner", written over a horizontal line.

Katie M. Turner

July 22, 1994

ITS, Inc.
2100 M Street., N.W.,
Suite 246
Washington, D.C. 20037

Mr. William A. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Kathleen B. Levitz, Acting Chief
Common Carrier Bureau
Federal Communications Commission
1919 M Street, N.W., Room 500
Washington, D.C. 20554

Ad Hoc Telecommunications Users
James S. Blaszak
Charles C. Hunter
Gardner, Carton & Douglas
1301 K Street, N.W.
Suite 900 - East Tower
Washington, D.C. 20005

Paul Rodgers
Charles D. Gray
James Bradford Ramsay
NARUC
1102 ICC Building
Post Office Box 6848
Washington, D.C. 20044

Mary McDermott
VP & General Counsel
U.S. Telephone Association
1401 H Street, NW
Washington, D.C. 20005

Susan M. Gately
Lee L. Selwyn
Economics and Technology, Inc.
One Washington Mall
Boston, MA 02108

Brian R. Moir
Moir & Hardman
2000 L Street, N.W., Suite 512
Washington, D.C. 20036-4907

Leon M. Kestenbaum
Jay C. Keithley
H. Richard Juhnke
Attorneys for Sprint Corp.
1850 M Street, N.W., 11th Floor
Washington, D.C. 20036

Elizabeth Dickerson
Manager, Federal Regulatory
1801 Pennsylvania Avenue, NW
Washington, D.C. 20006

Mark C. Rosenblum
Robert J. McKee
Peter H. Jacoby
Attorneys for AT&T Corp.
295 North Maple Avenue
Room 2255F2
Basking Ridge, New Jersey 07920

Daryl L. Avery
Peter Wolfe
Attorneys for the Public
Service Commission of the
District of Columbia
450 Fifth Street, N.W.
Washington, D.C. 20001

Michael S. Pabian
Attorney for Ameritech
2000 West Ameritech Center drive
Room 4H76
Hoffman Estates, IL 60196-1025

Robert Sutherland
Richard M. Sbaratta
4300 Southern Bell Center
675 West Peachtree Street, N.E.
Atlanta, Georgia 30375

Edward R. Wholl
Edward E. Niehoff
Attorneys for NYNEX
120 Bloomingdale Road
White Plains, NY 10605

James T. Hannon
Attorney for US WEST
1020 19th Street, N.W.,
Suite 700
Washington, D.C. 20036